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**South Carolina
Division of General Services**

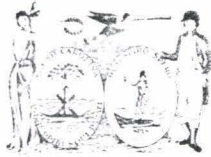
PROCUREMENT AUDIT AND CERTIFICATION

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STATE DOCUMENTS

SOUTH CAROLINA FORESTRY COMMISSION
AGENCY

JULY 1, 1990 - DECEMBER 31, 1993
DATE

STATE OF SOUTH CAROLINA
State Budget and Control Board
DIVISION OF GENERAL SERVICES



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CHAIRMAN, SENATE FINANCE COMMITTEE

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CHAIRMAN, WAYS AND MEANS COMMITTEE

LUTHER F. CARTER
EXECUTIVE DIRECTOR

April 20, 1994

Helen T. Zeigler
Director
Division of General Services
1201 Main Street, Suite 420
Columbia, South Carolina 29201

Dear Helen:

I have attached the Forestry Commission's procurement audit report and recommendations made by the Office of Audit and Certification. I concur and recommend the Budget and Control Board grant the Commission a three (3) year certification as noted in the audit report.

Sincerely,

Hardy L. Merritt
Assistant Division Director

HLM/jj

Attachment

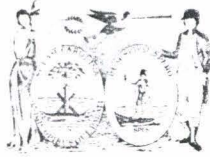
SOUTH CAROLINA FORESTRY COMMISSION
PROCUREMENT AUDIT REPORT

JULY 1, 1990 - DECEMBER 31, 1993

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LUTHER F. CARTER
EXECUTIVE DIRECTOR

April 18, 1994

Hardy L. Merritt, Ph.D
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Hardy:

We have examined the procurement policies and procedures of the South Carolina Forestry Commission for the period July 1, 1990 - December 31, 1993. As part of our examination, we studied and evaluated the system of internal control over procurement transactions to the extent we considered necessary.

The evaluation was to establish a basis for reliance upon the system of internal control to assure adherence to the Consolidated Procurement Code and State and Commission procurement policy. Additionally, the evaluation was used in determining the nature, timing and extent of other auditing procedures necessary for developing an opinion on the adequacy, efficiency and effectiveness of the procurement system.

The administration of the South Carolina Forestry Commission is responsible for establishing and maintaining a system of internal control over procurement transactions. In fulfilling

this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance of the integrity of the procurement process, that affected assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and are recorded properly.

Because of inherent limitations in any system of internal control, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal control over procurement transactions, as well as our overall examination of procurement policies and procedures, were conducted with professional care. However, because of the nature of audit testing, they would not necessarily disclose all weaknesses in the system.

The examination did, however, disclose conditions enumerated in this report which we believe need correction or improvement.

Corrective action based on the recommendations described in these findings will in all material respects place the Forestry Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations.



R. Voight Shealy, CFE, Manager
Audit and Certification

INTRODUCTION

We conducted an examination of the internal procurement operating policies and procedures of the South Carolina Forestry Commission. Our on-site review was conducted January 6-26, 1994, and was made under the South Carolina Consolidated Procurement Code and Section 19-445.2020 of the accompanying regulations.

The examination was directed principally to determine whether, in all material respects, the procurement system's internal controls were adequate and the procurement procedures, as outlined in the Internal Procurement Operating Procedures Manual, were in compliance with the South Carolina Consolidated Procurement Code and its ensuing regulations.

Additionally our work was directed toward assisting the Commission in promoting the underlying purposes and policies of the Code as outlined in Section 11-35-20, which include:

- (1) to ensure the fair and equitable treatment of all persons who deal with the procurement system of this State
- (2) to provide increased economy in state procurement activities and to maximize to the fullest extent practicable the purchasing values of funds of the State
- (3) to provide safeguards for the maintenance of a procurement system of quality and integrity with clearly defined rules for ethical behavior on the part of all persons engaged in the public procurement process

SCOPE

We conducted our examination in accordance with Generally Accepted Auditing Standards as they apply to compliance audits. It encompassed a detailed analysis of the internal procurement operating procedures of the South Carolina Forestry Commission and its related policies and procedures manual to the extent we deemed necessary to formulate an opinion on the adequacy of the system to properly handle procurement transactions.

We statistically selected random samples for the period July 1, 1991 - December 31, 1993, of procurement transactions for compliance testing and performed other audit procedures that we considered necessary to formulate this opinion. Specifically, the scope of our audit included, but was not limited to, review of the following:

- (1) One hundred randomly selected procurement transactions
- (2) The selection and approval of two architect and engineering service contracts
- (3) Two permanent improvement contracts for approvals and compliance with the Manual for Planning and Execution of State Permanent Improvements
- (4) Block sample of eight hundred sequentially numbered purchase orders
- (5) All sole source, emergency and trade-in sale procurements for the audit period
- (6) Minority Business Enterprise Plan and quarterly progress reports
- (7) Real property lease listings and approvals
- (8) Procurement staff and training
- (9) Field purchase order procedures and compliance

- (10) Evidence of competition and informal bidding procedures
- (11) Inventory and disposition of surplus property procedures
- (12) Review of the procurement procedures manual
- (13) Economy and efficiency of the procurement process

SUMMARY OF AUDIT FINDINGS

Our audit of procurement management at the South Carolina Forestry Commission, hereinafter referred to as the Commission, produced findings and recommendations in the following areas:

	<u>PAGE</u>
I. <u>Compliance - General</u>	
A. <u>Unauthorized Procurements</u>	8
Three procurements were made without the approval of the requisite authority.	
B. <u>Field Purchase Orders (FPO's) Not in Compliance with Internal Procurement Procedures</u>	9
Three FPO's exceeded the authorized dollar limits.	
C. <u>Procurement Without Written Quotations</u>	10
One procurement lacked the required written quotations.	
II. <u>Compliance - Sole Source and Emergency Procurements</u>	
A. <u>Drug-Free Workplace Certifications</u>	10
Four sole source and two emergency procurements greater than \$50,000 were not supported by Drug-Free Workplace certifications.	
B. <u>Procurement Reported Unnecessarily as Sole Source</u>	11
One exempt procurement was unnecessarily reported.	

III. Procurement Procedures Manual

11

The Commission's procurement procedures manual must be updated to reflect the new Code changes and the Commission's higher certification limits.

RESULTS OF EXAMINATION

I. Compliance - General

To test for general compliance with the Consolidated Procurement Code, hereinafter referred to as the Code, we selected a sample of one hundred randomly selected transactions from the period July 1, 1991 - December 31, 1993. Furthermore; we reviewed a block sample of 800 purchase orders beginning at number 200 through 1000 in fiscal year 1992/93. As a result of this testing we noted the following exceptions:

A. Unauthorized Procurements

The following three procurements were unauthorized:

<u>Item #</u>	<u>PO#</u>	<u>Amount</u>	<u>Description</u>
1	300881	\$ 499.25	Portrait
2	300885	470.40	Printing
3	123671(FPO)	635.00	Land surveying services

Regulation 19-445.2015 defines an unauthorized procurement as "an act obligating the state in a contract by any person without requisite authority to do so..."

Items 1 and 2 were for purchases made by section personnel without prior approval from the purchasing office. Furthermore; Section B.7 of the Commission's internal procurement procedures states in part:

...procedures for picking up or ordering items or services prior to issuance of the purchase order is accomplished by using the confirmation purchase procedure... a purchasing approval number must first be obtained from the purchasing section before ordering. This number, along with the wording, CONFIRMATION - DO NOT DUPLICATE, must be shown on the requisition presented to the purchasing department.

Item 3 was a field purchase order for land surveying services for \$635.00. First, this amount exceeds the FPO authorized dollar limit of \$475.00. Second, these services should have been submitted to the State Engineer for approval as required by Section 11-35-3230 of the Code.

We recommend that Commission personnel comply with internal procedures and the Code when making procurements in the future.

Since the three procurements listed above were unauthorized, they must be submitted for ratification in accordance with Regulation 19-445.2015.

B. Field Purchase Orders (FPO's) Not in Compliance With Internal Procedures

The following three FPO's were in violation of internal procurement procedures:

<u>FPO#</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
117792	07/02/93	\$ 870.09	Building supplies
126335	11/09/92	535.25	Paint supplies
121596	04/02/92	976.75	Installation of heating/cooling duct system

These contracts were entered into by field personnel in violation of FPO authorized dollar limits.

Section F.2 of the procurement procedures manual states in part:

Field purchase orders are not to exceed \$475.00 with the following exceptions: (a) motor vehicle equipment repairs or repair parts up to \$1,400.00, (b) state term contract items, (c) items and services exempted by the Materials Management Office, (d) approved emergency procurements and (e) approved sole source procurements.

We recommend that field personnel process FPO's in compliance with internal procurement procedures.

C. Procurement Without Written Quotations

Purchase order 301209 dated 6/10/93 was for bulk ammonium nitrate at a cost of \$1,700.00. Two phone quotes were obtained and the procurement was processed on a confirming purchase order. However, at that time written quotations from three qualified sources of supply were required by the Code.

We recommend the purchasing office strictly adhere to the correct request for quotations procedures.

II. Compliance - Sole Source and Emergency Procurements

A. Drug-Free Workplace Certifications

We noted four sole source and two emergency procurements for \$50,000 or more where the Commission did not obtain the required certifications from vendors that they were in compliance with the South Carolina Drug-Free Workplace Act. Items 1-4 were sole source and 5-6 were emergency procurements. These contracts were as follows:

<u>Item#</u>	<u>PO#</u>	<u>PO Date</u>	<u>Amount</u>	<u>Item/Service Description</u>
1	201275	05/08/92	\$ 84,782.00	Pine tree seed processing equipment
2	200272	09/11/91	66,033.94	Used Lowboy trailers
3	200307	09/16/91	625,830.00	Used JD 750 tractors
4	101716	06/25/91	66,990.00	Used pickup trucks
5	101565	05/13/91	54,250.00	Emergency forestry services
6	101566	05/13/91	51,200.00	Emergency fuel break clearing and fire suppression services

Section 44-107-40 of the South Carolina Code of Laws, 1976, as amended in 1991, requires that:

No state agency may enter into a domestic contract or make a domestic grant with any individual for a stated or estimated value of fifty thousand dollars or more unless the contract or grant includes a certification by the individual that the individual will not engage in the unlawful manufacture, distribution, dispensation, possession or use of a controlled substance in the performance of the contract.

The Commission has not complied with the law in these cases.

We recommend that the Commission exercise more caution to ensure that sole source and emergency contracts greater than \$50,000 are not awarded unless the vendors complete Drug-Free Workplace certifications.

B. Procurement Reported Unnecessarily as Sole Source

The following contract was unnecessarily reported as a sole source procurement.

<u>PO#</u>	<u>Date</u>	<u>Amount</u>	<u>Description</u>
400192	08/17/93	\$5,113.50	Recurring software maintenance

This annual software maintenance contract was for the period July 1, 1993 through June 30, 1994. Annual renewals of software license agreements are exempt if the initial procurement was made in accordance with the Code. Therefore, this should not have been reported as a sole source. An amendment should be filed with the Materials Management Office to remove this procurement from the Commission's sole source report.

III. Procurement Procedures Manual

While on site, we reviewed the Commission's procurement procedures manual. With the new certification limits requested by the Commission and changes to the State Procurement Code, we recommend the manual be updated to include the following:

<u>Section</u>	<u>Changes to be Made</u>
B.1(1)	Change \$2,500 to read \$25,000
B.3(2)	Change \$1,400 to \$1,500
B.4	Change \$500 to read \$1,500
B.9	Add - "conditions for use of multi-term contracts must be in accordance with procedures outlined in the permanent regulations Section 19-445-2135"
C.5	Add - "See section T"
D	Change all references to \$500 to read \$1,500
E	Change \$500 to read \$1,500
F.2(2)	Change \$475 to \$1,000
F.2(2a)	Change \$1,400 to \$1,500
F.3	Change July 1, 1982 to read January 1, 1983 (Code 11-35-45)
G-1(1)	Change \$2,499.99 to \$25,000
G-2(1)	Change \$2,499.99 and \$2,500 to \$25,000
G-2(3)	Change \$500 to \$1,500
G.3(1)	Change these four sections on quotation procedures to be in accordance with the new Code's Small Purchasing Procedures limits as outlined in Section 11-35-1550
G.3(2)	
G.3(3)	
G.3(4)	
G.3(5)	Change to read: on items with an approved sole source justification, bid requirements are waived...
H-1(3)	Change \$500 to \$1,500
H-1(5)	Change \$2,500 to \$25,000
L.2	Change \$2,500 to \$25,000

T

Add the new definition for term
contracts as outlined in the
new Code Section 11-35-310(33)

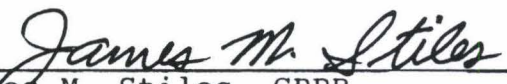
CERTIFICATION RECOMMENDATIONS

As enumerated in our transmittal letter, corrective action based on the recommendations described in this report, we believe, will in all material respects place the Forestry Commission in compliance with the South Carolina Consolidated Procurement Code and ensuing regulations. Corrective action should be accomplished by April 30, 1994.

Under the authority described in Section 11-35-1210 of the Procurement Code, subject to this corrective action, we recommend the South Carolina Forestry Commission be certified to make direct agency procurements for three years up to the limits as follows:

<u>Procurement Areas</u>	<u>Recommended Certification Limits</u>
I. Goods and Services	*\$ 25,000 per commitment
II. Consultant Services	*\$ 25,000 per commitment
III. Information Technology in accordance with the approved Information Technology Plan	*\$ 25,000 per commitment

*Total potential commitment to the State whether single year or multi-term contracts are used.


James M. Stiles, CPPB
Audit Manager


R. Voight Shealy, CFE, Manager
Audit and Certification



SOUTH CAROLINA FORESTRY COMMISSION
P.O. Box 21707 • Columbia, South Carolina 29221
(803) 896 8800, FAX (803) 798 8097
J. Hugh Ryan, State Forester

March 11, 1994

**Mr. R. Voight Shealy
Manager
Audit and Certification
Materials Management Office
1201 Main Street, Suite 600
Columbia, South Carolina 29201**

Dear Mr. Shealy:

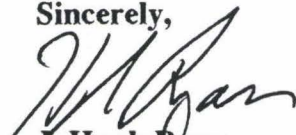
We have reviewed the results of your examination of the Commission's procurement activities and concur with your findings. I have reviewed the exceptions as listed in your draft with Mr. William Kelly our Director of Procurement Services and we agree with them. We have conferred with the individuals involved in each situation, and while the exceptions can be eliminated by following procedures already in place, those individuals involved have been reminded of the correct procedure to be followed.

We are currently in the process of updating our Procurement Manual to reflect all the changes your staff recommended. A copy of the updated manual will be forwarded to you within the next two weeks.

We appreciate the professional manner in which Mr. Jim Stiles of your office conducted this examination and we will continue as we have in the past to contact your office when we encounter procurement problems. Additionally, we will continue to encourage and support the continued professional development of our staff in procurement.

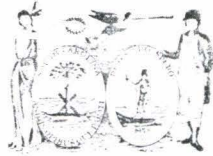
Further, we appreciate the confidence that your staff has shown in the Commission by recommending the certification that the South Carolina Forestry Commission requested. We do not feel that an exit conference is necessary as we understand and agree with your findings and have taken the corrective steps as you recommended.

Sincerely,



**J. Hugh Ryan
State Forester**

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EXECUTIVE DIRECTOR

April 20, 1994

Hardy L. Merritt, Ph.D.
Assistant Division Director
Division of General Services
1201 Main Street, Suite 600
Columbia, South Carolina 29201

Dear Hardy:

We have reviewed the Forestry Commission's response to our audit report for July 1, 1990 - December 31, 1993. We are satisfied that the Commission has corrected the problem areas and that internal controls over the procurement system are adequate.

Therefore, we recommend that the Budget and Control Board grant the Forestry Commission the certification limits noted in our audit report for a period of three (3) years.

Sincerely,

R. Voight Shealy, CFE, Manager
Audit and Certification

RVS/jj

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